

March 22nd, 2013

Dear Members of the Committee,

I am writing in opposition of House Bill 431, "an act revising negotiation requirements for surface owner damage and disruption compensation from oil and gas developers or operators". As a member of a family owned and operated oil and gas company from North Central Montana, I have personal experience with surface damage negotiations. My experience tells me that if the surface owner owns all or some of the minerals the negotiations go smoothly. If the surface owner has purchased a farm or ranch in which they do not own the minerals or royalty, commonly referred to as a split estate, problems arise. Please note that the split estate problem arises when a surface owner with minerals and royalty sells the surface, but reserves the minerals and royalties. It is important to note that oil and gas companies did not create the spit estate problem, they just get the privilege of dealing with it.

When considering this bill, one should remember that in the State of Montana the mineral estate is the dominate estate. The mineral owner assigns those rights to oil and gas companies to explore for, drill, and produce oil and natural gas. Damages on the surface do occur during the drilling process. Oil and gas companies are required to compensate the surface owner for the damage to the land directly affected. I do not think that you will find anybody that disagrees with this.

The issue arises on how value is determined when the two parties fail to reach an agreement. Our company has a land owner that wanted \$40,000 an acre for a 10 year surface lease on land that recently sold for \$300 per acre. Our offer was for \$1,000 per acre which is three times the market value for land. My question to the committee is where does my company go from this point? How do I negotiate when the two parties are so far apart?

If you want to make the law fair for both parties, and I am assuming you do, how about using the Montana Department of Revenue Assessed Value and use that as a value for land. My guess is land owner in certain parts of the great State of Montana will claim that Montana Department or Revenue values are way too low. If that is the case I would welcome the input as to what the value is and have their land assessed at that value and property taxes paid at that value. I'd like to note that this would help with the school funding problem our state is currently experiencing.

This bill does nothing to clarify the value of land it only makes the issue less clear. Please Vote No, this will open up a can of worms.

Sincerely,
Mac McDermott
406 5th Ave. South
Shelby